

ITEM 1: COVER PAGE

MONARCH ALTERNATIVE CAPITAL LP

FIRM BROCHURE
FORM ADV Part 2A

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This brochure provides information about the qualifications and business practices of Monarch Alternative Capital LP. If you have any questions about the contents of this brochure, please contact us at 212.554.1700 or visit www.monarchlp.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (the "SEC") or by any state securities authority.

Additional information about Monarch Alternative Capital LP is also available on the SEC's website at www.adviserinfo.sec.gov.

Monarch Alternative Capital LP is an investment adviser registered with the SEC. Registration with the SEC does not imply a certain level of skill or training.

ITEM 2: MATERIAL CHANGES

This item discusses material changes to the Brochure prepared by Monarch Alternative Capital LP, dated March 28, 2013. The Material Changes section of this brochure will be updated annually and when material changes occur since the previous release of this brochure. You will receive a summary of any material changes to this and subsequent brochures or a revised brochure within 120 days of the close of our fiscal year. We may further provide other ongoing disclosure information about material changes as necessary.

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ITEM 4: ADVISORY BUSINESS

Monarch Alternative Capital LP (the "Adviser" or "Monarch") is an investment adviser formed in Delaware with its principal place of business in New York, New York. The Adviser was formed on March 26, 2002 in partnership with the owners of Quadrangle Group LLC ("Quadrangle"). In December 2007, Monarch completed its spin-out from Quadrangle to become an independent entity. The Adviser is wholly owned by MDRA GP LP, which is majority owned both directly and indirectly by the Adviser's three co-founders: Michael A. Weinstock, Andrew J. Herenstein and Christopher M. Santana.

The Adviser provides discretionary investment advisory services to its clients, which are pooled investment vehicles intended as investments for sophisticated investors such as institutional investors and high net worth individuals that are qualified to invest under applicable law (each such vehicle a "Fund" and collectively, the "Funds"). In addition, the Adviser provides discretionary or non-discretionary investment advisory services to separately managed accounts that also take the form of pooled investment vehicles, but are established by third parties ("Managed Accounts" and together with the Funds, "Clients"). Clients may be structured as hedge funds, private equity funds or hybrid funds. Clients typically are U.S. and non-U.S. limited partnerships or non-U.S. corporate entities that are not registered or required to be registered under the Investment Company Act of 1940, as amended (the "1940 Act") or the Securities Act of 1933, as amended (the "Securities Act"). Interests in Clients are typically privately placed to qualified investors in the United States and elsewhere. These qualified investors are U.S. persons that are "Accredited Investors" and "Qualified Purchasers," non-U.S. persons or "Knowledgeable Employees" as defined under applicable Securities and Exchange Commission rules and regulations.

The Adviser is focused on investing in distressed situations. Clients may invest in and hold a variety of instruments, including bank loans, public and private corporate bonds, asset-backed securities, trade claims, and public or private equity securities either received in connection with debt restructurings and certain types of special situation investments or acquired through direct purchase. Clients may also hold a variety of derivative instruments or short positions for hedging purposes or alpha generation. The Adviser tailors its advisory services as described in the investment program of each Client's private placement memorandum or organizational documents or as set forth in the investment management agreement with such Client ("Governing Documents"). Please refer to Item 8 for a more detailed description of the Adviser's investment strategies and instruments held by Clients.

The Adviser manages each Client's portfolio according to the terms of the Client's Governing Documents. The terms upon which the Adviser serves as investment manager of a Fund are fixed at the time a Fund is established and in respect of a Managed Account are generally negotiated before the adviser is engaged. Such terms are set out in a Client's Governing Documents. These terms, which vary among Clients, generally include restrictions on the types of securities and other assets in which a Client may invest, as well as the amount of assets a Client may invest in any portfolio company, industry or geography, among others. The Adviser is not obligated to structure any Client's investment in order to address or give effect to the individual objectives or considerations of any investors or group of investors in that Client. While all of Clients' portfolios are managed utilizing a distressed debt strategy, the particular investment targets and limitations may be tailored and would be reflected in the Governing

Documents. For example, some Clients' strategies involve a diversified portfolio that maintains a bias to opportunities in the upper part of the capital structure. Other Clients are more opportunistic with a greater concentration of investments in the lower part of the capital structure while still maintaining a strong bias toward senior secured debt. These Clients are likely to have a greater degree of concentration of investments in individual companies, countries, and industries as compared to other distressed debt strategies managed by the Adviser. The Adviser also manages Clients that limit their portfolios to structured products or increase the concentration of such products within their portfolios. Lastly, the Adviser provides sub-advisory services with limited investment discretion to a Client with a narrowly tailored distressed debt strategy.

Persons reviewing this Form ADV Part 2A Brochure should not construe this as an offering of any of the Funds described herein. Any such offering will only be made pursuant to the delivery of a private placement memorandum to prospective investors.

The Adviser does not participate in wrap fee programs.

As of January 1, 2014, the Adviser managed approximately \$5.2 billion in assets on a net asset value basis. Assets managed in connection with Funds structured as private equity funds include committed assets that may be drawn under the terms of the Governing Documents. Of the \$5.2 billion in assets managed by the Adviser, approximately \$10 million in assets are managed on a limited discretion basis pursuant to a sub-advisory agreement.

ITEM 5: FEES & COMPENSATION

Clients are generally charged a monthly management fee in advance based on the net asset value of their assets under management with the Adviser. Certain private equity structured Funds are also charged a monthly commitment fee during such Funds' investment periods that is based on the amount of undrawn capital commitments or a management fee based on the lesser of net asset value or commitments. Clients that terminate investment advisory services or investors that are mandatorily redeemed from a Fund before the end of a pre-paid billing period, will generally be refunded any prepaid fees for the period for which they did not receive services, unless otherwise provided in the Governing Documents. Management fees for Clients generally range from 1.25% to 2.0% on an annual basis, with certain private equity structured funds paying no management fees during the distribution period. Commitment fees, if any, for Clients are 0.50% on an annual basis. The Adviser's management fee for its sub-advisory Client is 0.25% on an annual basis. Management fees and commitment fees are allocated for all purposes to investors in Clients that are subject to such fees. Furthermore, Clients are charged a performance allocation or fee that, depending on the Client, may be taken annually and/or upon distributions. The performance allocation for Clients ranges from 20% to not more than 30%. The performance allocation for hedge fund structured Clients is generally based on net capital appreciation at the end of each fiscal year. Any incentive fee or allocation for hedge fund structured Clients is also subject to a "net-loss carry forward" provision whereby a performance fee is not charged until losses from prior years have been recouped. The performance allocation for private equity structured Clients is based on the return to a Client's underlying investors and the achievement of a certain preferred rate of return. The performance allocation for Clients with hybrid structures is based on the return to a Client's underlying investors but is not typically subject to achieving a preferred rate of return. The calculation and timing of the payment of management fees and other compensation to the Adviser will vary among its Clients, depending on whether a Client is in an investment period and other circumstances that may be unique to a Client. In addition, Managed Accounts may be subject to a minimum amount of management fees for an initial period. As such, underlying investors should consult a Fund's Governing Documents for a more complete discussion of the management fees and other compensation arrangements to which such investors are subject.

Each Fund's Governing Documents note the fee and allocation arrangements available to investors, including any fee breaks based on investment size. Furthermore, the Adviser may permit Funds to waive, rebate or reduce all or part of the fees or performance allocation with respect to certain investors without waiving, rebating or reducing the fees or performance allocation with respect to other investors. Managed Accounts negotiate their fees with the Adviser. Managed Accounts may also negotiate provisions regarding various expenses such as formation, audit, administration, custodial or others.

The Adviser is generally granted the discretion to deduct its fees and allocations as incurred; however, certain Clients, generally Managed Accounts, will authorize payment to the Adviser.

To the extent permitted by a Client's Governing Documents, underlying investors bear the costs and expenses associated with the execution of the Client's investment strategy and its formation. Accordingly, by investing in a Client, underlying investors bear the cost of the organization and offering of such Client and any related feeder funds, master fund and other

special purpose vehicles, including external legal and accounting expenses, printing costs, travel and out-of-pocket expenses. In addition, investors also bear all expenses relating to a Client's operations, and such Client's pro rata share of the expenses relating to the operation of any master fund or other vehicle through which it may directly or indirectly invest. Such expenses including, but are not limited to:

- the management and incentive fee or allocation;
- fees paid to the administrator;
- fees paid to professional advisors regarding tax, accounting or legal matters related to the Client or its investments;
- fees paid to any directors, registered office fees, bank service fees, investment or trading related fees, such as Bloomberg terminals, brokerage commissions or spreads, prime broker fees or custodian fees;
- interest on margin loans and other indebtedness;
- research expenses and consultant fees (e.g., fees and expenses of third parties that provide specialized reporting, data and/or analysis, whether on a one-off or on-going basis, as to specific companies, sectors or asset classes in which the Client has made or may make an investment, or subscriptions to certain specialized publications) related to the analysis, purchase or sale of investments, whether or not the investment is consummated;
- due diligence (including, but not limited to, the engagement of specialized service providers relating to an investment, group of investments or strategy, tax or accounting consultants, legal or financial advisors and other consultants or advisors) and travel expenses related to the analysis, purchase or sale of investments and expenses associated with the formation and operation of vehicles established to make such investments, whether or not the investment is consummated;
- expenses, including, but not limited to, fees for legal or regulatory advice or submission costs, relating to filings with the SEC, such as Forms PF, 13F, 13H, 13G/D, 3, 4 or 5, or other regulatory bodies, including foreign or local jurisdictions;
- professional liability insurance for the Adviser (i.e., D&O and E&O policies), Client filing and registration fees and service provider expenses, applicable taxes, or other operational fees or expenses;
- costs related to internal fund accounting, risk management and trading systems (e.g., software supporting order management, general ledger or allocation processes);
- expenses relating to the valuation or appraisal of investments and expenses associated with securities quotation services and products (e.g., Bloomberg, Intex, IDC, NYSE, and other similar services);

- expenses related to any conflicts committee;
- expenses relating to communications with prospective investors and Shareholders (including, but not limited to, generating, printing and delivering Fund information or making such information available through an investor communication portal);
- expenses relating to holding meetings with prospective investors and Shareholders, as determined by the Advisor; and
- other expenses related to the investment, financing, monitoring, enhancement, disposition or reporting of Fund assets.

Clients do not bear the cost of (i) any remuneration to employees or officers of the Adviser, (ii) the Adviser's business continuity program, or (iii) expenses solely related to the Adviser or its affiliates unless specifically noted above.

Expenses incurred for the benefit of one or more Clients will generally be allocated pro rata in proportion to either (i) the relative net asset value of each of such Clients or (ii) the relative exposure (actual or anticipated) of each of such Clients to the investment to which such expense relates; provided, that the Adviser may allocate such expenses in any other manner it determines fair and reasonable.

The Adviser generally incurs and pays certain expenses in the name of and on the behalf of Clients. Such Clients will bear such expenses and as appropriate promptly reimburse the Adviser.

If the Adviser receives fees other than management or incentive fees (e.g., director fees) in connection with a Client investment, the Adviser will rebate or offset a portion of the fees against amounts owed to the Adviser by such Client. The amount of such fees that is rebated or used to offset owed amounts is proportionate to the amount of assets attributable to such Client's underlying investors that pay fees or are subject to an incentive allocation.

ITEM 6: PERFORMANCE-BASED FEES & SIDE-BY-SIDE MANAGEMENT

The Adviser (or its affiliated entities) charge performance based fees or allocations that are based on a share of capital gains or capital appreciation of a Client's assets. As a general matter, any performance based fees charged to a Client will comply with the requirements of Section 205 of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the rules thereunder. While all Clients are subject to an incentive fee or allocation, the amount of such fee or allocation varies. For example, some Clients have lower management fees but higher incentive fees or allocations than other Clients. In addition, incentive fees or allocations may be paid annually or upon distributions exceeding various thresholds. Any given fee arrangement may be more or less advantageous depending on performance and timing of distributions. Prospective investors or Clients should note that incentive fees or allocations may create an incentive for the Adviser to select riskier or more speculative investments than would be the case in the absence of such compensation. Potential conflicts of interest may also arise with the allocation of limited investment opportunities to the extent that the Adviser may have an incentive to allocate investments that are more likely to generate excess distributions but that are also more risky or are expected to increase in value to preferred Clients, including Clients with higher incentive fee or allocation structures. The compensation arrangements referred to in this section present potential conflicts when the Adviser's interests may not be or may not be perceived to be aligned with the best interests of one or more of its Clients or their underlying investors. Improper activity could manifest itself in the form of inappropriate recommendations or investments to certain Clients because the Adviser hopes the Client will attract additional investors or because it has been underperforming in an investment strategy. In addition, the Adviser will face a conflict of interest when marking a fair valued position because marking it down could cause (i) a decline in a Client's performance or (ii) an increase in performance volatility, which can make the Client potentially less attractive to existing and prospective investors.

In its efforts to address these conflicts, the Adviser has implemented trade allocation policies and procedures that mitigate the risk that investments are allocated other than fairly and equitably among Clients. These allocation policies and procedures take into account variations in Clients' investment programs, objectives, restrictions, liquidity, available cash, anticipated inflows/outflows and other factors, but do not permit consideration of a performance fee or incentive arrangement. As a general matter, all pro-rata allocations are subject to the Adviser's policy of generating capital for Clients with coming redemptions or distributions and investing capital of new Clients or those with excess liquidity resulting from in-flows. The Adviser's Compliance Department, along with the Chief Financial Officer, Director of Operations and Head Trader, regularly review Client portfolios and transactions to confirm that allocations are done in a fair and equitable manner and in accordance with the Adviser's policies and procedures. The Adviser has also adopted valuation policies and procedures that mitigate the risk that investments are improperly marked. The policies and procedures provide for regular review and testing of pricing.

The Adviser may invest Client assets in parts of an issuer's capital structure different than those held in another Client's portfolio. The Adviser acknowledges there may be conflicts of interests in managing such investments, especially in distressed situations. For example, the

Adviser may elect to appoint personnel to serve on creditors' committees (official or unofficial), equity holders' committees or other groups to ensure preservation or enhancement of a Client's position as a creditor or equity holder in bankruptcy or insolvency proceedings or otherwise be engaged in financial restructuring activities in a variety of capacities. Such activities may result in the Adviser receiving confidential information that may, as a result of applicable securities laws or the internal policies of the Adviser, limit or otherwise constrain the Adviser's flexibility in purchasing or selling securities or other obligations with respect to other Client's portfolios. In an effort to avoid such restrictions or limitations, the Adviser may elect not to receive confidential information, which may be relevant to a Client's portfolio, that other market participants are eligible to receive or have received.

ITEM 7: TYPES OF CLIENTS

The Adviser manages pooled investment vehicles that permit investment only by sophisticated investors that are typically institutional investors or high net worth individuals. A description of each Client, including its operation and activities, management fees, performance-based fees, where applicable, and structure can be obtained from such Client's Governing Documents.

The majority of capital managed by the Adviser for its Clients is attributable to institutional investors, such as pension funds and funds of funds, in the United States and abroad. Other than for limited discretion advisory services, the Adviser generally requires that any new Managed Account have no less than \$150 million in assets for the Adviser's exclusive management. Such Clients are generally required to maintain a minimum amount of assets to retain eligibility for advisory services on a separately managed account basis.

The Adviser or its related persons have entered into and may in the future enter into side letters or other similar agreements with underlying investors in a Fund that have the effect of establishing rights under, or altering or supplementing the terms of, that Fund's Governing Document. Such rights or terms in any such side letter or other similar agreement are not subject to approval by the other investors and may include (i) different liquidity or notice periods, minimum investment amounts or fees or incentive allocations, (ii) excuse rights applicable to particular investments (which may increase the percentage interest of other underlying investors in, and contribution of obligations of other underlying investors with respect to, such investments) or expenses, (iii) the agreement of the Adviser or its affiliate to extend certain information rights or additional diligence, valuation or reporting rights to such investor, including, but not limited to, accommodating special regulatory or other circumstances of such investor, (iv) additional obligations and restrictions on the Adviser or its affiliate and the Fund with respect to the structuring of investments in light of the legal, tax and regulatory considerations of such investor, (v) different levels of preferred return and/or different claw back arrangements or (vi) other rights or terms in light of particular legal, regulatory, public policy or other characteristics of such underlying investor. Underlying investors who have side letters or similar arrangements may make independent investment decisions based on the information obtained pursuant to those arrangements. The terms of any such side letter or agreement generally will not be disclosed to other underlying investors unless the Adviser or its affiliates have specifically agreed to do so with another underlying investor. The terms and conditions of a side letter or similar arrangement may differ significantly from the terms and conditions of another, and may be more or less favorable with respect to any underlying investor than the terms and conditions offered to other underlying investors.

ITEM 8: METHODS OF ANALYSIS, INVESTMENT STRATEGIES & RISK OF LOSS

The Adviser's strategy is to identify inefficient segments of the credit markets that provide for attractive distressed investments and to leverage the Adviser's core skills and experience to create value for its Clients. Monarch takes a flexible and opportunistic approach to investing by generally focusing on areas with limited competition, including small to mid-sized capital structures, less trafficked instruments in large situations and unique investment approaches within certain segments and industries.

The Adviser utilizes a research-driven approach to investing. Monarch seeks to develop a superior understanding over the sellers of distressed instruments, who typically are unwilling or unable to hold distressed debt, by utilizing its expertise and conducting more research about the company, the capital structure and, as applicable, the restructuring or legal process. Monarch's Clients invest on a "bottom-up" basis meaning that the investment team seeks to invest in what it believes to be the most attractive distressed debt opportunities at a given time based on rigorous analysis of each individual investment rather than building the portfolio based on market factors such as the direction of the economy, interest rates, currencies and credit spreads.

Monarch frequently takes an active role in investments through (1) taking control of companies when the investment team believes that such action is likely to enhance the value of Client investments and (2) deep involvement in debt restructuring negotiations or other legal processes to influence the outcome. When Clients receives significant equity stakes in restructured companies, members of the investment team may join the board of directors of a restructured company or otherwise become actively involved to influence management and enhance the value of the Client investments. Additionally, when active in the restructuring or legal process, the investment team typically participates in groups such as ad hoc creditors' committees and bank steering committees. It may also participate in official Chapter 11 creditors' committees. The Adviser's ongoing process following the initial investment entails on-going research and active involvement to identify additional opportunities for follow-on investments, support its efforts to influence the outcome of a restructuring or legal process and maximize the value of the investment.

Clients may borrow on a short-term basis to facilitate investments or cash management or to cover operating expenses, but most Clients do not intend to be leveraged on a gross long basis in the ordinary course of their investment strategies. The Adviser believes that investing without leverage provides important discipline and stability to the investment team's investment process by assessing each investment on an unlevered basis. A Client may purchase securities on margin and may borrow funds from brokers, banks and other parties when the Adviser determines that such action is in the best interest of such Client. Additionally, a Client may achieve leverage in certain transactions through the use of structured financial products or repurchase agreements.

An investment in securities, including the portfolio companies and other investments held by Clients, involves a significant degree of risk. There can be no assurance that the investment's targeted returns will be achieved or that there will not be a loss of capital. Losses in a Client will be borne solely by the underlying investors and not by the Adviser. Therefore, an investor should only invest in a Client if the investor can withstand a total loss of its investment.

Prospective Clients or investors in Clients should take note of the general aforementioned risk of loss and carefully review the various risks particular to the Adviser's investment strategy. Not all risks are apparent or known, so prospective Clients or investors in Clients should not assume that the following is a complete list of risks attendant to a Client's investment program.

Material, Significant or Unusual Risks Relating to Investment Strategies

General Investment Risks

All Client investments risk the loss of capital. Clients and investors in a Client must be prepared to bear significant capital losses. All prospective Clients or investors in a Client should consult their own legal, tax and financial advisors prior to investing in a Client or engaging the Adviser's investment advisory services.

Reliance on Key Management Personnel

The success of a Client will depend, in large part, upon the skill and expertise of the management of the Adviser. There is no assurance that key personnel of the Adviser will continue to be employed by the Adviser for any period. In the event of the death, disability or departure of any of such individuals, the performance of a Client may be adversely affected. In addition investors in Clients will have no opportunity to control the day-to-day operations, including investment and disposition decisions. Nor will they have an opportunity to evaluate for themselves the relevant economic, financial and other information regarding investments to be made by the Adviser on behalf of such Client.

General Economic and Market Conditions

The success of the Adviser's activities is affected by general economic and market conditions, which are generally unpredictable and can be caused by a variety of economic, social, political, military, climatic and other factors.

Limited Diversification

Subject to applicable Client restrictions, the Adviser may concentrate investments in particular industries, geographic regions or companies. To the extent the Adviser concentrates a Client's investments in a particular issuer, a small number of issuers or issuers within one industry, a Client's portfolio may become more susceptible to fluctuations in value resulting from adverse economic or business conditions affecting those particular issuers or such industry. Accordingly, a Client may be subject to more rapid changes in value than would be the case if a Client were required to maintain a wide diversification among types of investments.

Volatile Markets

The market for bank loans, corporate debt, and other credit-related investments is often extremely volatile. Markets in which such instruments trade are prone to severe liquidity constraints. Price movements are influenced by many unpredictable factors, such as market sentiment, inflation rates, political events, interest rate movements, natural disasters, and general economic conditions. Diverse markets may move rapidly in the same direction due to any one or

a combination of these factors.

Potential Illiquidity of Portfolio Investments

The market value of Client investments will fluctuate with, among other things, changes in interest rates, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of Client investments. In addition, the lack of an established, liquid secondary market for some Client investments may have an adverse effect on the market value of those Client investments and on a Client's ability to dispose of them. Additionally, Client investments are typically subject to certain other transfer restrictions that may contribute to illiquidity. Also, Client investments constituting a control position may be subject to additional transfer restrictions under federal securities and other laws by virtue of such control position, which may contribute to illiquidity. Therefore, no assurance can be given that, if a Client decides to dispose of a particular investment, it will be able to dispose of such investment at the prevailing market price or in a timely manner.

Inside Information

The Adviser or its affiliates are regularly in possession of material, non-public information concerning the issuer of securities or other instruments in which Clients have invested, or in which the Adviser intends to invest for its Clients. The possession of such information may limit the ability of other Clients to buy or sell such securities or other instruments. Accordingly, the Adviser may be required to refrain on behalf of its Clients from buying or selling such securities or other instruments at times when the Adviser might otherwise wish to cause a Client to buy or sell such securities or other instruments.

Non-U.S. Investments

Clients make investments in a number of different countries outside of the United States. With any investment outside of the United States, there exist certain economic, political, and social risks, including the risk of adverse political developments, nationalization, confiscation without fair compensation, civil unrest, or war, some of which are less prevalent in the case of investments in the United States. In addition, laws, regulations, and conditions in non-U.S. countries may impose restrictions or risks that are less prevalent in the United States and may require financing and structuring alternatives that differ significantly from those customarily used in the United States. The Adviser will analyze risks in the applicable non-U.S. countries before making such investments, but no assurance can be given that political or economic conditions, or particular legal or regulatory risks, might not adversely affect an investment by a Client. Certain of the aforementioned risks may be increased with respect to any investments a Client may make in developing and emerging markets.

Regulatory Limitations on Investment Activity by European Regulators

The AIFM Directive became law in a number of member states of the European Economic Area (the "EEA") on July 22, 2013. Other EEA member states will have transposed the AIFM Directive into local law by July 22, 2014. The AIFM Directive requires managers of alternative investment funds (such as the Adviser) to comply with certain obligations in respect of the acquisitions of controlling stakes in companies established in EEA member states, as a condition for offering investments in their funds to EEA investors. These obligations include the

requirements to make certain notifications and disclosures to the board of the portfolio company, its other shareholders, its employees and the regulator of the relevant EEA member state.

In addition, the AIFM Directive restricts a manager's ability to facilitate, support, instruct, or vote in favor of, distributions, capital reductions, share redemptions and/or acquisitions of its own shares by the portfolio company in the first 24 months following the acquisition of control. In broad terms, these restrictions allow distributions only out of "distributable profits" (as determined in accordance with the applicable law in the relevant EEA member state) and then only if that portfolio company's net assets would remain at or above the level of the subscribed capital plus undistributable reserves. These restrictions may impact on the ability of Clients to structure investments in EEA portfolio companies efficiently or to exit an investment at an appropriate time and, as such, may adversely affect Client's ability to carry out certain of its investment strategies and achieve its investment objectives.

Necessity for Counterparty Trading Relationships; Counterparty Risk

The Adviser establishes relationships for its Funds to obtain financing, access to derivative instruments and prime brokerage services that permit such Funds to invest in any variety of markets or asset classes over time; however, there can be no assurance that the Fund will be able to establish or maintain such relationships. Managed Accounts must establish such accounts on their own behalf. An inability to establish or maintain such relationships could limit a Client's trading activities, could create losses, preclude the Client from engaging in certain transactions, financing, derivative intermediation and prime brokerage services and could prevent the Adviser from trading at optimal rates and terms for such Client. Moreover, a disruption in the financing, derivative intermediation and prime brokerage services provided by any such relationships before a Client establishes additional relationships could have a significant impact on the Client's performance.

Most of the markets in which the Adviser effects transactions are not "exchange-based", including "over-the-counter" or "interdealer" markets. The participants in such markets are typically not subject to the credit evaluation and regulatory oversight to which members of "exchange-based" markets are subject. The lack of evaluation and oversight of over-the-counter markets exposes Clients to the risk that a counterparty will not settle a transaction in accordance with its terms and conditions because of a dispute over the terms of the contract (whether or not bona fide) or because of a credit or liquidity problem, which could cause a Client to suffer a loss. Such "counterparty risk" is accentuated for contracts with longer maturities where events may intervene to prevent settlement, or where a Client has concentrated its transactions with a single or small group of counterparties. Generally, a Client will not be restricted from dealing with any particular counterparties. The Adviser's evaluation of the creditworthiness of its counterparties may not prove sufficient. The lack of a complete evaluation of the financial capabilities of Client counterparties and the absence of a regulated market to facilitate settlement could increase the potential for losses by a Client.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act"), grants the Commodity Futures Trading Commission (the "CFTC") and the SEC broad rulemaking authority to implement various provisions of the Dodd-Frank Act including comprehensive regulation of the over-the-counter derivatives market.

The Reform Act will require that a substantial portion of OTC derivatives be executed in regulated markets and submitted for clearing to regulated clearinghouses. The CFTC has presently only mandated that certain swaps be submitted for clearing. OTC trades submitted for clearing will be subject to minimum initial and variation margin requirements set by the relevant clearinghouse, as well as possible SEC- or CFTC-mandated margin requirements. The regulators also have broad discretion to impose margin requirements on non-cleared OTC derivatives. OTC derivative dealers also will be required to post margin to the clearinghouses through which they clear the Fund's trades instead of using such margin in their operations, as is currently permitted. These new requirements will increase the OTC derivative dealers' costs, and these increased costs are expected to be passed through to the Fund in the form of higher upfront and mark-to-market margin, less favorable trade pricing and the possible imposition of new or increased fees.

The SEC and CFTC may also require a substantial portion of derivatives transactions that are currently executed on a bi-lateral basis in the OTC markets to be executed through a regulated securities, futures or swap exchange or execution facility. The CFTC has presently only mandated that certain swaps be executed on such electronic platforms. Such requirements may make it more difficult and costly for the Fund to enter into highly tailored or customized transactions. They may also render certain strategies in which the Fund might otherwise engage impossible or so costly that they will no longer be economical to implement.

OTC derivatives not required to be cleared and traded on an electronic trading platform will not be subject to similar types of government regulation as exchange-traded instruments as well as the protections afforded to participants in a regulated environment.

Contingent and Other Liabilities

Clients incur contingent liabilities in connection with their investment activities. For example, the Adviser causes Clients to purchase revolving credit facilities that have not yet been fully drawn (commonly known as "revolvers"). If the borrower subsequently draws down on the facility, a Client would be obligated to fund the amounts due. A Client also may enter into agreements pursuant to which it agrees to assume responsibility for default risk presented by a third party, and may, on the other hand, enter into agreements through which third parties offer default protection to the Client.

In addition, certain of Adviser's strategies require the acquisition and review, whether directly or by representatives, confidential personal data that is protected by federal, state and/or local law. The inadvertent disclosure of such information could result in significant liability to a Client on whose behalf the Adviser undertakes such a review. In addition, parties providing a Client and Adviser such personal data require indemnification for any losses suffered in connection with the provision of such data. Clients could bear significant losses as a result of such indemnification.

Lastly, in connection with the disposition of an investment, a Client may be required to make representations about such investment, including representations with respect to the business and financial affairs of the underlying company or other facts relevant to such instrument. A Client also may be required to indemnify the purchasers of such investment to the extent that any such representations are inaccurate. These arrangements may result in the incurrence of contingent liabilities, which may require the Client to maintain reserves or escrows to meet such a contingency or which might ultimately have to be funded by the Client, including after the

dissolution of such Client, which may require that investors in the Client return amounts distributed to them to fund these obligations.

Leverage

Subject to a Client's Governing Documents, the Adviser may cause a Client to borrow on a secured or unsecured basis for any purpose, including making any investments and to increase investment capacity, pay fees and expenses, pay withdrawal or redemption proceeds or to make other distributions. The interest expense and other costs incurred in connection with such borrowing may not be recovered by appreciation in the investments purchased or carried. In such cases, a Client's net asset value could decrease faster than if there had been no borrowings as a result of both borrowing costs and losses realized with borrowed funds. In addition, unanticipated increases in applicable margin requirements could adversely affect the liquidity of a Client and therefore adversely affect its performance.

Litigation

Investing in higher-yielding and distressed instruments can be a contentious and adversarial process, particularly in the case of restructurings. The Adviser's investment activities may subject Clients to the risks of becoming involved in litigation by third parties. This risk may be greater where the Adviser exercises control or significant influence over a company's direction. The expense of defending claims against Clients by third parties and paying any amounts pursuant to settlements or judgments are generally borne by Clients and would reduce net assets.

Bankruptcy and Other Proceedings

When a company seeks relief under the Bankruptcy Code (or has an involuntary petition filed against it), an automatic stay generally prevents (with limited exceptions) all entities, including creditors, from foreclosing or taking other actions to enforce claims, perfect liens or seize collateral securing such claims. Creditors who have secured claims against the company prior to the date of the bankruptcy filing must petition the court to permit them to take any action to protect or enforce their claims or their rights in any collateral. Secured creditors may be prohibited from exercising their rights against their collateral if the court concludes that the value of the property in which the creditor has an interest will be "adequately protected" during the proceedings. What constitutes adequate protection in a particular case is committed to the broad discretion of the bankruptcy judge, determined from all the facts and circumstances. If the protection is ultimately inadequate to protect the creditor from loss in value of the collateral, the bankruptcy court may grant the creditor a superpriority claim for any lost value in the collateral, which superpriority claim generally has priority over every other allowable administrative or general unsecured claim except superpriority claims and liens granted to post-petition lenders. Moreover, a secured claim is secured only to the value of the security or collateral. If the claim exceeds the value of the collateral, the insufficient portion generally becomes an unsecured claim.

Security interests held by creditors are closely scrutinized and frequently challenged in bankruptcy proceedings and may be invalidated for a variety of reasons. For example, security interests may be set aside because, as a technical matter, they have not been perfected properly under the Uniform Commercial Code or other applicable law. If a security interest is invalidated

or avoided, the secured creditor loses its secured status causing its claim to be treated as an unsecured claim. If this occurs, the holder of such claim may experience a significant loss of its investment. There can be no assurance that the security interests of securities held by a Client will not be challenged vigorously and found defective in some respect, or that a Client will be able to prevail against the challenge.

Moreover, debt may be disallowed or subordinated to the claims of other creditors if the creditor is found to have engaged in certain inequitable conduct resulting in harm to other parties with respect to the affairs of a company filing for protection from creditors under the Bankruptcy Code. If a creditor is found to have interfered with the company's affairs to the detriment of other creditors or shareholders, the creditor may be held liable for damages to injured parties. While a Client attempts to avoid taking the types of action that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that a Client will be able successfully to defend against them. It is also possible that claims acquired by a Client from third parties could be subject to equitable subordination or disallowance as a result of the inequitable conduct of prior holders of such claims. Such claims may also be subject to defenses or setoff relating to the prior holders. Additionally, in certain circumstances, debt obligations may be re-characterized as contributions to capital (i.e., equity) and, therefore, be subordinated to the claims of all creditors.

While the challenges to liens and debt described above normally occur in a bankruptcy proceeding, the conditions or conduct that would lead to an attack in a bankruptcy proceeding could in certain circumstances result in actions brought by other creditors of the debtor, shareholders of the debtor or even the debtor itself or representatives of the debtor in other state or federal proceedings. There can be no assurance that such claims will not be asserted or that a Client will be able to successfully defend against them. To the extent that a Client assumes an active role in any legal proceeding involving a debtor, a Client may be prevented from disposing of securities issued by the debtor due to a Client's possession of material, non-public information concerning such debtor. In certain circumstances, a Client's active role in certain legal proceedings involving the debtor may itself restrict a Client's ability to dispose of its securities. The Client may also incur significant costs with respect to any active role it plays in any legal proceeding.

Variable Investment Terms

Certain of Adviser's Clients have more favorable investment terms than other Clients and certain Fund investors have been provided with more favorable investment terms than other investors. The Adviser may in the future provide such more favorable terms to new or existing Clients or Fund investors. Such favorable terms include, but are not limited to, access to portfolio, Client or Adviser information, management or withdrawal or redemption fees, incentive fees or allocations, minimum investment amounts and liquidity.

A combination of special transparency and liquidity rights may have an adverse impact on other Clients or Fund investors, particularly, with respect to withdrawing or liquidating assets. Because the portfolios of Clients may comprise significant amounts of common positions, the liquidation activities of one Client could affect the price and availability of the securities and instruments in which another Client invests. Likewise, withdrawals by one investor from a Client may negatively impact the portfolio to which other investors in such Client are exposed.

Illiquidity of Client Investments and Interests in a Client

The market value of Client investments will fluctuate with, among other things, changes in market rates of interest, general economic conditions, economic conditions in particular industries, the condition of financial markets and the financial condition of the issuers of Client investments. In addition, the lack of an established, liquid secondary market for some Client investments may have an adverse effect on the market value of those Client investments and on a Client's ability to dispose of them. In addition, an investor's interests in a Client are not registered under the Securities Act or any other securities laws and, therefore, cannot be resold unless they are subsequently registered under such laws or registration thereunder is not required pursuant to an exemption from such registration or otherwise. Such interests are also subject to substantial restrictions on transferability under the Governing Documents. There is a limited market for such interests and there is no guarantee any such market will persist or be available for interests in a Client.

Cross-Liability from Investments through Special Purpose Vehicles

The Adviser has established special purpose vehicles through which certain investments are held for the benefit of Clients. The Adviser may establish additional special purpose vehicles in the future and it is expected that Clients will also invest in certain of such vehicles. Judgments or creditor claims against such vehicles may impair the value of a Client's interests in such vehicles beyond its pro-rata share of any given liability if, for example, other Clients have wound-down operations or are otherwise unable to meet their obligations to such vehicles.

An investment acquired in more than one transaction may have portions exposed to different counterparties or different legacy holders. Where such an investment is acquired by a special purpose vehicle on behalf of more than one Client in different proportions, the Adviser may treat as fungible such various transactions that comprise such investment. As a result, each participating Client participates in its respective portion of the aggregate investment rather than its respective portion of each transaction comprising such investment. In the event that any one of such transactions results in adverse rights or obligations as compared to the other transactions, the value of a Client's exposure to the investment may be less than what it might have been if the Adviser did not treat such transactions as fungible.

Short Sales

The Adviser's Clients sell securities short for hedging purposes or generating alpha. Selling securities short runs the risk of losing an amount greater than the amount invested. Short selling is subject to the theoretically unlimited risk of loss because there is no limit on how much the price of a security may appreciate before the short position is closed out. A short sale may result in a sudden and substantial loss if, for example, an acquisition proposal is made for the subject company at a substantial premium over market price. In addition, the supply of securities that can be borrowed fluctuates from time to time. A Client may be subject to losses if a security lender demands return of the borrowed securities and an alternative lending source cannot be found or if a Client is otherwise unable to borrow securities that are necessary to hedge its positions.

Material, Significant, or Unusual Risks Relating to Types of Investments

General

Subject to their Governing Documents, Clients typically invest in a portfolio of distressed debt investments (e.g. investments in defaulted, out-of-favor or distressed bank loans or other instruments). Certain investments will be in specific debt of companies that typically are highly leveraged, with significant burdens on cash flow, and therefore involve a high degree of financial risk. Clients may also make investments in companies that are experiencing financial or operational difficulties or are otherwise out-of-favor. Such companies' debt and equity may be considered speculative, and the ability of such companies to pay their debts on schedule could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, or specific developments within such companies. Investments in companies operating in workout or bankruptcy modes also present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks.

Clients also invest in private debt, equity and warrants. These securities may be acquired with or without registration rights. Unregistered securities are highly illiquid and may not be freely traded.

Distressed Instruments

Investment in the debt or equity of financially or operationally troubled issuers involves a high degree of credit and market risk. There can be no assurance that such financially or operationally troubled issuers can be successfully transformed into profitable operating companies. There is a possibility that a Client may incur substantial or total losses on its investments. During an economic downturn or recession, securities of financially or operationally troubled issuers are more likely to go into default than securities of other issuers. In addition, it may be difficult to obtain information about financially or operationally troubled issuers.

Investment in the securities of financially or operationally troubled issuers is typically a part of a long-term investment strategy and, accordingly, Clients or investors in a Client should have the financial ability and willingness to remain invested for the long term. Instruments of financially or operationally troubled issuers are less liquid and more volatile than instruments of companies

not experiencing such difficulties. The market prices of these instruments are subject to erratic and abrupt market movements and the spread between bid and asked prices may be greater than normally expected for more liquid or less volatile instruments. In addition, many of a Client's portfolio investments are not widely traded and a Client's investment in such securities is from time to time substantial relative to the market for such securities. As a result, a Client may experience delays and incur losses and other costs in connection with the sale of its portfolio securities. In addition, a Client may be subject to restrictions on the sale of certain securities in the portfolio as a result of a Client's percentage of holdings of securities in such issuer or as a result of its access to confidential information.

Defaulted Securities

Where Clients invest in the instruments of companies involved in bankruptcy proceedings, reorganizations and financial restructurings, the Adviser may have an active participation in the affairs of the issuer. This active participation may subject a Client to litigation risks or prevent (or otherwise limit) a Client from disposing of certain securities. In a bankruptcy or other proceeding, a Client as a creditor may be unable to enforce its claims or rights in any collateral or may have its claims or security interest in any collateral challenged, disallowed or subordinated to the claims or security interests of other creditors. While a Client attempts to avoid taking the types of actions that would lead to equitable subordination or creditor liability, there can be no assurance that such claims will not be asserted or that a Client will be able to successfully defend against them. Even if a Client is ultimately successful, it may in the interim be required to post a bond pending an appeal that may limit its ability to deploy capital to other investment opportunities, which could adversely affect a Client. If a Client's investment in such securities is significant, a Client may receive a higher proportion of post-reorganization securities (as discussed below) than cash payments after any bankruptcy proceeding, reorganization or financial restructuring of a company.

High Yield, Low or Unrated Securities

Investments in "high yield" bonds and preferred stock or debt securities that are unrated or rated in the lower categories by the various credit rating agencies (or in comparable non-rated securities) are subject to greater risk of loss of principal and interest than higher-rated securities and are generally considered predominantly speculative with respect to the issuer's capacity to pay interest and repay principal. These instruments are also generally considered to be subject to greater risk than securities with higher ratings in the case of deterioration or general economic conditions. Because investors generally perceive that there are greater risks associated with the lower-rated securities, the yields and prices of such securities may tend to fluctuate more than those of higher-rated securities. The market for lower-rated securities is thinner and less active than that for higher-rated securities, which can adversely affect the prices at which these securities can be sold. In addition, adverse publicity and investor perceptions about lower rated securities, whether or not based on fundamental analysis, may be a contributing factor in a decrease in the value and liquidity of such lower-rated securities.

Post-reorganization Securities

Post-reorganization securities typically entail a higher degree of risk than investments in securities of companies that have not undergone, and are not perceived as likely to undergo, a reorganization or restructuring. Moreover, post-reorganization securities can be subject to heavy

selling or downward pricing pressure after the completion of a bankruptcy reorganization or restructuring. If the Adviser's evaluation of the anticipated outcome of an investment situation should prove incorrect, a Client could experience a loss. While a Client focuses on investing in senior securities that typically receive cash or debt in a reorganization, a Client's investment approach may also result in the receipt of post-reorganization equity securities, which may be subject to greater risk than debt securities.

Bank Loans and Participations

Bank loans and participations in bank loans have special risks including, but not limited to, (i) the possible invalidation of an investment transaction as a fraudulent conveyance or voidable preference under relevant creditors' rights laws, (ii) environmental liabilities that may arise with respect to collateral securing the obligations, (iii) adverse consequences resulting from participating in such instruments with other institutions with lower credit quality, (iv) limitations on the ability of a Client or the Adviser to directly enforce its rights, and (v) assertions of lender liability. Successful claims by third parties arising from these and other risks would generally be borne by a Client.

Lender Liability Considerations and Equitable Subordination

In recent years, a number of judicial decisions in the United States have upheld the right of borrowers to sue lending institutions on the basis of various evolving legal theories. Generally, such lender liability is founded upon the premise that an institutional lender has violated a duty (whether implied or contractual) of good faith and fair dealing owed to the borrower or has assumed a degree of control over the borrower resulting in a creation of a duty owed to the borrower or its other creditors or shareholders. Because of the nature of certain of a Client's investments, a Client could be subject to allegations of lender liability.

In addition, under principles that in some cases form the basis for lender liability claims, if a lending institution (i) intentionally takes an action that results in the undercapitalization of a borrower to the detriment of other creditors of such borrower, (ii) engages in other inequitable conduct to the detriment of such other creditors, (iii) engages in fraud with respect to, or makes misrepresentations to, such other creditors or (iv) uses its influence to dominate or control a borrower to the detriment of other creditors of such borrower, a court may subordinate the claim of the offending lending institution to the claims of the disadvantaged creditor or creditors, which is referred to as "equitable subordination". Because of the nature of certain of a Client's investments, a Client could be subject to claims from creditors of an obligor that Client's investments issued by such obligor that are held by a Client should be equitably subordinated. A significant number of Client's investments will involve investments in which a Client would not be the lead creditor. It is possible that lender liability or equitable subordination claims affecting a Client investments could arise without the direct involvement of a Client.

Control Positions and Non-Controlling Interests

From time to time, the Adviser, through its Client's investments, directs control positions in Client portfolio companies. The exercise of control over a company imposes additional risks of liability for environmental damage, product defects, failure to supervise management, violation of governmental regulations and other types of liability in which the limited liability generally characteristic of business operations may be ignored. The Adviser may also invest its Clients in

non-controlling interests in certain companies and, therefore, may have a limited ability to protect those positions.

Risk of Liability for Underfunded Portfolio Company Pension Plans

Clients may obtain a controlling interest in certain portfolio companies which may impose additional risks of liability under U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”) for a portfolio company’s underfunded pension plans. Such liabilities may arise if a Client is deemed to be engaged in activities with respect to a portfolio company that go beyond passive investment, including, but not limited to, management of such portfolio company’s operations; authority with respect to the hiring, termination and compensation of such portfolio company’s employees and agents; and receipt of fees or other compensation that offset the management fee for services provided to such portfolio company by the Client or its affiliates, including the Adviser. If such liabilities were to arise, the Client might suffer a significant loss.

Distressed Municipal Debt Investing Risks

Investments in distressed municipal debt are subject to various risks that are not generally found in investments in other types of securities. The assets underlying such municipal debt will typically have significant risks as a result of business, economic or legal uncertainties. They likely will be experiencing financial or operational difficulties or be otherwise out of favor. Such securities are typically illiquid and may be considered speculative. The assets underlying such securities could be adversely affected by interest rate movements, changes in the general economic climate or the economic factors affecting a particular industry, or specific developments related to such underlying assets. Any such underlying assets that are operating in workout or bankruptcy modes present additional legal risks, including fraudulent conveyance, voidable preference and equitable subordination risks. Prices of the portfolio investments may be volatile or difficult to gain third-party validation of, and a variety of other factors that are inherently difficult to predict or evaluate, such as domestic or international economic and political developments, may significantly affect the results of a Client’s activities and the value of its portfolio investments. As part of the Adviser’s strategy to restructure and rehabilitate the assets underlying the municipal bonds in which Clients invest, a Client may hold various types of other securities, including secured and unsecured notes. There can be no assurance that the Adviser will correctly evaluate the nature and magnitude of the various factors that could affect the value of, and return on, such portfolio investments. Certain risks specific to these types of investments are described below.

Municipal Revenue Bond Risks

The Adviser expects to make municipal investments primarily in distressed tax-exempt municipal revenue bonds. Such bonds are typically issued by or on behalf of states, territories and possessions of the United States, the District of Columbia and their political subdivisions, agencies or instrumentalities to obtain funds for a wide range of public facilities including housing projects, industrial projects, hospitals, schools, mass transportation, stadiums, waterworks and sewer systems and highways. In addition, certain types of industrial development bonds are issued by or on behalf of public authorities to obtain funds for many types of local, privately operated facilities (such debt instruments are considered municipal

obligations if the interest paid on them is exempt from federal income tax). Revenue bonds are municipal bonds that finance income-producing projects and are payable only from the revenue derived from a particular project, facility or specific revenue source. Unlike general obligation bonds, revenue bonds are not payable from the general taxing power of the municipality and holders of revenue bonds typically have no claims on the issuer's other resources. The primary source of repayment and collateral for revenue bonds generally consists of the following items:

- revenue from the underlying project (fees, rent, tolls, concessions, etc.);
 - generally, a senior lien on the underlying asset; and
 - an obligation for repayment by the sponsor.
- Municipal revenue bonds carry a higher default risk than general obligation bonds. Not only are they not backed by the full faith and credit of a municipality, but the income from the projects funded by revenue bonds cannot be predicted with certainty. If the projects do not produce enough revenue, the bonds may default. The success of revenue bonds ultimately depends on the projects' ability to produce revenue. The bonds in which the Adviser expects to invest will typically already be experiencing financial or operational difficulties, which heightens the risk that sufficient revenue will not be generated. If the assets underlying such bonds are not rehabilitated and the prospect for revenue generation is not improved, the value of Clients' investment in such bonds will likely decline.
 - The value of the Client investments in municipal revenue bonds will be affected by local, state, regional and national factors. These may include economic or policy changes, erosion of the tax base, legislative changes (especially those regarding taxes) and the possibility of credit problems. Any such changes or events may adversely affect the value of the Client investments.

Derivative Instruments

Use of derivative instruments presents various risks which include the following:

- *Tracking* - When used for hedging purposes, an imperfect or variable degree of correlation between price movements of the derivative instrument and the underlying investment sought to be hedged may prevent a Client from achieving the intended hedging effect and expose a Client to additional risk of loss.
- *Liquidity* - Derivative instruments are prone to episodes of illiquidity such that in volatile or other abnormal market conditions a Client may not be able to close out a position without incurring a loss. In addition, daily limits on price fluctuations and speculative position limits on exchanges on which a Client may conduct its transactions in derivative instruments may prevent prompt liquidation of positions, subjecting a Client to the potential of greater losses.
- *Leverage* - Use of derivative instruments may result in large amounts of leverage. The leverage offered by utilizing derivative instruments generally will magnify the gains and losses experienced by a Client and could cause a Client's net asset value to be subject to

wider fluctuations than would be the case if a Client did not use leveraged derivative instruments.

- *Over-the-Counter Trading* - Derivative instruments that may be purchased or sold by a Client may include instruments not traded on an exchange. The risk of nonperformance by the obligor on such an instrument may be greater and the ease with which a Client can dispose of or enter into closing transactions with respect to such an instrument may be less than in the case of an exchange-traded instrument. In addition, significant disparities may exist between “bid” and “ask” prices for derivative instruments that are not traded on an exchange. Derivative instruments not traded on exchanges are also not subject to the same type of government regulation as exchange-traded instruments, and many of the protections afforded to participants in a regulated environment may not be available in connection with such transactions.
- *Counterparty and Credit Risk* - To the extent that contracts for investment will be entered into between a Client and a market counterparty as principal (and not as agent), a Client is exposed to the risk that the market counterparty may, in an insolvency or similar event, be unable to meet its contractual obligations to a Client.

Because certain purchases, sales, hedging, financing arrangements (including the lending of portfolio securities) and derivative instruments in which a Client will engage are not traded on an exchange but are instead traded between counterparties based on contractual relationships, a Client is subject to the risk that a counterparty will not perform its obligations under the related contracts. Although a Client intends to pursue its remedies under any such contracts, there can be no assurance that a counterparty will not default and that a Client will not sustain a loss on a transaction as a result. The Client is also subject to the risk that a decrease in the net asset value of a Client or the Master Client resulting from portfolio performance, redemptions or both, may result in a Client or the Master Client defaulting under such contracts and losses to a Client.

Asset-Backed Securities

Asset-backed securities are securities backed by home equity loans, installment sale contracts, credit card receivables or other assets. Asset-backed securities are “pass-through” securities, meaning that principal and interest payments — net of expenses — made by the borrower on the underlying assets (such as credit card receivables) are passed through to a Client. The value of asset-backed securities, like that of traditional fixed income securities, typically increases when interest rates fall and decreases when interest rates rise. However, asset-backed securities differ from traditional fixed income securities because of their potential for prepayment. The price paid by a Client for its asset-backed securities, the yield a Client expects to receive from such securities and the average life of the securities are based on a number of factors, including the anticipated rate of prepayment of the underlying assets. In a period of declining interest rates, borrowers may prepay the underlying assets more quickly than anticipated, thereby reducing the yield to maturity and the average life of the asset-backed securities. Moreover, when a Client reinvests the proceeds of a prepayment in these circumstances, it will likely receive a rate of interest that is lower than the rate on the security that was prepaid. To the extent that a Client purchases asset-backed securities at a premium, prepayments may result in a loss to the extent of the premium paid. If a Client buys such securities at a discount, both scheduled payments and unscheduled prepayments will increase current and total returns and unscheduled prepayments

will also accelerate the recognition of income which, when distributed to shareholders, may be taxable as ordinary income. In a period of rising interest rates, prepayments of the underlying assets may occur at a slower than expected rate, creating maturity extension risk. This particular risk may effectively change a security that was considered short or intermediate-term at the time of purchase into a longer term security. Since the value of longer-term securities generally fluctuates more widely in response to changes in interest rates than shorter term securities, maturity extension risk could increase the volatility of such securities. When interest rates decline, the value of an asset-backed security with prepayment features may not increase as much as that of other fixed-income securities, and, as noted above, changes in market rates of interest may accelerate or retard prepayments and thus affect maturities.

Non-agency residential mortgage backed securities and commercially mortgage backed securities are collectively referred to as MBS. MBS represents an interest in, or an interest secured by, a single mortgage loan or a pool of mortgage loans. Investing in MBS involves the general risks typically associated with investing in traditional fixed-income securities, in the case of fixed rate MBS, and those risks typically associated with adjustable rate instruments, in the case of floating rate MBS, which in each case includes interest rate risk and credit rate risk. MBS also are subject to several risks created through the securitization process. MBS may not be structured with significant or any overcollateralization, so their performance will be sensitive to delays or reductions in payments, particularly in the case of subordinated MBS. To the extent that MBS provide for writedowns of principal, interest will cease to accrue on the portion of principal of a security that has been written down. In addition, subordinate MBS are paid interest only to the extent that there are funds available to make payments. Subordinate tranches of such securities also are subject to greater credit risk. MBS may contain certain credit enhancement features intended to enhance the likelihood that holders of such securities will receive regular payments of interest and principal. There can be no assurance that the credit enhancement, if any, will adequately cover any shortfalls in cash available to make payments on such securities as a result of such delinquencies or defaults. Further, the risks of investing in MBS involve all of the risks of the underlying mortgage loans, including the credit quality of the underlying loans, decreases in property values underlying the loans and the risk that borrowers will default on the mortgages underlying the MBS.

Mortgage loans underlying the investments in MBS are obligations of the borrowers thereunder. Although certain mortgage loans are insured or guaranteed by government agencies, the mortgage loans underlying the MBS in which Clients typically invest are not government guaranteed. While a portion of Client MBS are insured, the insurers are typically distressed and may be unable to meet their obligations. Accordingly, delinquency, foreclosure and loss on the mortgage loans underlying a Client's investments are likely to result in higher rates of loss than would be the case for similar securities for which a guarantee by a government agency, such as Fannie Mae or Freddie Mac, or coverage by a non-distressed issuer, exists. To the extent that a Client's investments in MBS experience material defaults by the borrowers associated with the mortgages underlying such securities, a Client's performance and ability to achieve its investment objectives may be materially adversely affected.

Investing in a Commercially Mortgage Backed Security ("CMBS") will require the Adviser to estimate loss-adjusted yields related to such investments. The Adviser will value potential CMBS investments based on loss-adjusted yields, taking into account estimated future losses on

the mortgage loans included in the securitization's pool of loans, and the estimated impact of these losses on expected future cash flows. Based on these loss estimates, the Adviser will either adjust the pool composition accordingly through loan removals and other credit enhancement mechanisms or leave loans in place and negotiate for a price adjustment. The Adviser's loss estimates may not prove accurate, as actual results may vary from estimates. In the event that the Adviser overestimates the pool level losses relative to the price a Client pays for a particular CMBS investment, it may experience losses with respect to such investment.

The commercial mortgage loans underlying a CMBS are secured by multifamily residential properties, retail properties or other types of commercial properties and are subject to risks of delinquency and foreclosure and risks of loss that are greater than similar risks associated with residential mortgage loans that are secured by single-family residential property. In the event of the bankruptcy of a mortgage loan borrower, the mortgage loan to such borrower will be deemed to be secured only to the extent of the value of the underlying collateral at the time of bankruptcy, and the lien securing the mortgage loan will be subject to the avoidance powers of the bankruptcy trustee or debtor-in-possession to the extent the lien is unenforceable under state law.

The ability of a commercial borrower to repay a loan secured by a commercial property typically is dependent primarily upon the successful operation of such property rather than upon the existence of independent income or assets of the borrower. If the net operating income of the property is reduced, the borrower's ability to repay the loan may be impaired. Net operating income of an income producing property can be affected by, among other things: tenant mix, success of tenant business, property management decisions, property location and condition, competition from comparable types of properties, changes in laws that increase operating expense or limit rents that may be charged, any need to address environmental contamination at the property, the occurrence of any uninsured casualty at the property, changes in national, regional or local economic conditions and/or specific industry segments, current and potential future capital markets uncertainty, declines in regional or local real estate values, declines in regional or local rental or occupancy rates, increases in interest rates, real estate tax rates and other operating expenses, changes in governmental rules, regulations and fiscal policies, including environmental legislation, acts of God, terrorism, social unrest and civil disturbances.

Loans of Portfolio Securities

A Client may lend its portfolio securities on terms customary in the securities industry, enter into reverse repurchase agreements or enter into other transactions constituting a loan of the Client's assets. By doing so, the Client would attempt to increase its income through the receipt of interest on the loan. In the event of the bankruptcy of the other party to a securities loan, the Client could experience delays in recovering the securities it lent. To the extent that the value of the securities the Client lent has increased, Client could experience a loss if such securities are not recovered.

Margin Calls under Repurchase Agreements

The financial position of a Client may be adversely affected by margin calls under any repurchase agreements entered into by the Client, as applicable. Repurchase agreements allow counterparties, to varying degrees, to determine a new market value of the collateral to reflect current market conditions. If a counterparty determines that the value of the collateral has

decreased, it may initiate a margin call and require the Client to either post additional collateral to cover such decrease or repay a portion of the outstanding borrowing, on minimal notice. A significant increase in margin calls as a result of spread widening could harm the liquidity of the Client, results of operations, financial condition, and business prospects. Additionally, in order to obtain cash to satisfy a margin call, a Client may be required to liquidate assets at a disadvantageous time, which could cause it to incur further losses and adversely affect results of operations, financial condition, and may impair its ability to maintain current level of profits.

Other Securities

Futures and options involve risks of pricing differences between the market value of the underlying securities and their respective futures and options. In addition, a possible lack of a liquid secondary market for a futures or options contract and the resulting inability to close a futures or options position, could adversely affect a Client. Risk arbitrage is subject to high risk because of the uncertainty of the outcome of an arbitrage situation, which may depend on the outcome of litigation, changes in the terms of a transaction or regulatory developments or actions. If the Adviser's evaluation of an anticipated outcome of an arbitrage situation should prove incorrect, a Client could experience substantial losses as a result of a decline in the market value of securities in which a Client holds a long position or an increase in the value of securities in which a Client holds a short position or both.

The foregoing risks do not purport to be a complete explanation of all the risks Clients face. Investors in a Client should review the applicable Governing Documents, and especially the risk factors set out in such Client's private placement memorandum or other offering document. A Client may have specific risk factors that are different from the ones set forth in this brochure.

ITEM 9: DISCIPLINARY INFORMATION

The Adviser is committed to observing the highest standards of integrity and regulatory compliance in all aspects of its work. The Adviser does not have any legal or disciplinary events that are material to the evaluation of the Adviser's advisory business or the integrity of the Adviser's management.

ITEM 10: OTHER FINANCIAL INDUSTRY ACTIVITIES & AFFILIATIONS

Financial Interest in Transactions

An affiliate of Monarch, Monarch Alternative Capital GP LLC, acts as the general partner for certain Funds organized as limited partnerships. In addition, another affiliate of Monarch, Monarch Cayman GP Ltd acts as administrative general partner to certain Funds organized in Cayman Islands.

Monarch's indirectly held, wholly-owned subsidiary, Monarch Alternative Capital (Europe) LLP ("Monarch UK"), provides research services to Monarch and is registered with the Financial Services Authority in the United Kingdom. In addition, Monarch UK has limited discretion to execute trades on behalf of Clients.

Monarch has filed with the National Futures Association (the "NFA") an exemption from registration as a commodities trading adviser and it, along with Monarch Alternative Capital GP LLC, has filed with the NFA exemptions from registration as commodities pool operators in respect of certain Funds.

ITEM 11: CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS & PERSONAL TRADING

Monarch has adopted a Code of Ethics designed to address actual or potential conflicts that may arise from personal trading or other activities by Adviser personnel. Among other prohibitions and requirements set out in the Code of Ethics, Adviser personnel are generally not permitted to purchase or sell any security held by, or recommended to, Clients at the time of the contemplated transaction or at any time in the preceding sixty days and are required to obtain prior approval from the Adviser's Chief Compliance Officer (or his designee) and a portfolio manager before placing most personal trading orders. Duplicate transaction and account statements related to personal trading of certain of the Adviser's personnel are forwarded to the Adviser's compliance department from each broker with whom such personnel maintain a covered securities trading account (i.e. one that is not limited to mutual funds or certain other exempt securities) or fed directly to the Adviser's personal trading compliance system.

The Adviser or certain of its personnel also regularly receive or provide usual and customary business meals, business entertainment, or gifts from or to persons with whom the Adviser does business. The Adviser has adopted procedures within its Code of Ethics that it believes are reasonably designed to help ensure that such activities do not affect its judgment on issues relating to managing Client accounts (for example, issues relating to the best execution of Client trading orders) and do not improperly influence third parties. Exceptions to the policies and procedures contained in the Code of Ethics may be granted by the Adviser's Chief Compliance Officer (or his designee) after review. Included in the Adviser's Code of Ethics and in other written policies, are policies the Adviser maintains regarding the use and dissemination of material non-public information. Such policies seek to monitor and control the flow of material non-public information with the aim of avoiding any misuse, whether by way of trading or disclosure.

As a part of the Adviser's policies and procedures, the Chief Compliance Officer maintains a list of issuers about whom the Adviser may possess material non-public information or other confidential information (from whatever source) as well as the names of issuers in respect of which the Adviser may have agreed to a trading restriction (the "Restricted List"). Depending on the particular circumstances, instruments issued by the companies on the Restricted List will be subject to certain trading restrictions or pre-clearance requirements, including restrictions on personal securities transactions. Exceptions to the Adviser's policies in these areas may be granted by the Chief Compliance Officer (or his designee). In addition, the Chief Compliance Officer or his designee monitors trading in instruments of companies on the Restricted List.

If you would like to receive a copy of the Adviser's Code of Ethics, please contact Stacey Maman at 212.554.1729 or stacey.maman@monarchlp.com.

The Adviser does not purchase investments for its Clients from itself or its related persons. The Adviser does not sell investments from its Clients to itself or its related persons. To facilitate the implementation of Client investment strategies the Adviser has created certain special purpose trading vehicles, from which it does not collect any management fees or incentive fees or allocations, in which Clients invest. In addition, from time to time the Adviser may cause Clients to purchase or sell instruments issued by companies on which its personnel

serve as board members or in other capacities. To the extent the Adviser or its personnel receive any fees related to such service, such fees are rebated to Clients in a fair and equitable manner. Please see the response to Item 5 for additional information on fee rebating.

The Adviser may recommend to Clients the purchase or sale of instruments of an issuer in which the Adviser, its affiliates, personnel or related person may also invest or currently be invested. However, as a general matter, Adviser personnel are not permitted to trade in securities held by a Client. Principals, officers or employees whose primary responsibilities are portfolio management, research analysis or trade execution may, subject to limitations in the Adviser's Code of Ethics, engage in personal securities transactions where the underlying traded security is within his or her sector of coverage. This can create a conflict of interest due to the perception that the Adviser is recommending a particular investment transaction because of a financial interest held in the underlying security by the Adviser, its affiliates, personnel or related persons. The Adviser has adopted policies and procedures reasonably designed to ensure that its activities are carried out in compliance with applicable regulatory requirements and to minimize potential conflicts of interest (e.g., review of Client transactions by the Adviser's Compliance Department, prior employee trade approval from its Chief Compliance Officer (or his designee) in regard to personal securities transactions, etc.). The Adviser has no obligation to recommend for purchase or sale by advisory Clients any investment that the Adviser, its affiliates, personnel or related persons purchase or sell for themselves.

ITEM 12: BROKERAGE PRACTICES

Commission Rates and Research Services

The Adviser selects brokers, dealers, banks and other financial intermediaries to effect transactions for Clients on the basis of a variety of factors, including the following: the ability to effect prompt and reliable executions at favorable prices; the operational efficiency with which transactions are effected; the financial strength, integrity and stability of the executing party; the quality, comprehensiveness and frequency of available research services considered to be of value; the availability (or lack of availability) of the investment; and the competitiveness of commission rates in comparison with other brokers satisfying the Adviser's other selection criteria. Based on the applicable investment strategy, a limited universe of execution parties may be able to offer investments or provide bids for existing Client positions. In such cases, the executing party offering the investment or making a bid would represent the only execution for such transaction and would therefore be "best execution." Research services furnished by brokers may include written information and analyses concerning specific securities, companies or sectors; market, financial and economic studies and forecasts; statistics and pricing or appraisal services, as well as discussion with research personnel. The Adviser is authorized to pay higher prices for the purchase of securities from, or accept lower prices for the sale of such securities to, firms that provide it with such investment and research information or to pay higher commissions to such firms if the Adviser determines such prices or commissions are reasonable in relation to the overall services provided. Such soft dollar research services may include research reports on companies, industries, and securities; economic and financial data; financial publications; proxy analysis; trade industry seminars; computer databases; quotation services; and research oriented software and other services. Research services provided by firms used for one or more Clients may be utilized by the Adviser in connection with its investment services for other Clients. The Adviser may endeavor to direct sufficient commissions and commission equivalents to firms that, pursuant to such arrangements, provide research services in order to ensure the continued receipt of services the Adviser believes are useful in its investment decision-making process. To the extent the Adviser receives research services with soft dollars, it may reduce its obligations to pay for such services with its own assets. The Adviser also pays for research and other securities in "hard dollars", which are reimbursed to the Adviser by the Clients. Any management fees and performance-based compensation paid to the Adviser are not reduced as a result of the receipt of brokerage or research services.

Certain Managed Accounts limit the counterparties with which the Adviser may enter into certain transactions on their behalf.

From time to time, brokers (including prime brokers) may assist Funds in raising additional funds from investors, and representatives of the Adviser may speak at conferences and programs sponsored by such brokers for investors generally interested in investing in private funds. Through such "capital introduction" events, prospective investors in a Fund would have the opportunity to meet with the Adviser. Currently, none of the Adviser or the Funds compensate any broker for organizing such events or for any investments ultimately made by prospective investors attending such events. While such events and other services provided by a broker may influence the Adviser in deciding whether to use such broker in connection with brokerage, financing and other activities of a Client, the Adviser will not commit to allocate a

particular amount of brokerage to a broker in any such situation. Moreover, the Adviser and not the Client may be the principal beneficiary of those services.

The Adviser's personnel also may receive gifts and gratuities from executing counterparties. These gifts may include tickets to sporting events, meals and other entertainment, transportation, attendance at seminars or other educational training or informational events, logo items and other gifts that may be of substantial value. It is the Adviser's policy that gifts or entertainment of substantial value be reported to the Chief Compliance Officer.

The Adviser manages Clients that share similar, but not identical, investment strategies and objectives. As a result, any particular investment may be deemed suitable for one or more Clients, but not others. To the extent a particular investment is deemed to be generally suitable for more than one Client, such investment is generally allocated pro rata to such Clients based on assets under management, however, various considerations may require a different allocation that the Adviser determines is fair and equitable under the circumstances to all Clients. For example, among others, the Adviser considers each Client's current risk profile, exposure to similar investments, availability of cash, liquidity need, ability to borrow and cost of borrowing. In addition a Client's tax or regulatory status may prevent an allocation or change the nature or terms of the investment, as may particular restrictions placed by a Client or investors in a Fund. The Adviser may also determine that a particular pro-rata allocation is too small to be meaningful or economic, or needs to be increased to avoid "odd-lots" or "minimum trading lots." Where more than one Client participates in an acquisition or disposition of an investment, the Adviser generally aggregates the purchase or sale among its Clients in a matter that would not give preferential treatment to any single Client. If all such transactions are not filled at the same price, Clients will generally receive an average of the prices for all transactions in that investment for a given business day.

Clients may purchase or sell assets from or to one another under special circumstances (although to date they have not done so without directing or consenting to such trade). Any such cross trades will generally be valued and priced for fair market value and on terms as favorable to each Client involved in the transaction as would be the case in a transaction with an independent third party and in accordance with any fiduciary obligation of the Adviser under applicable law.

ITEM 13: REVIEW OF ACCOUNTS

The Adviser generally holds daily meetings, which all investment professionals are required to attend and which are also attended by many non-investment professionals, to review recent transactions, present new ideas and review developments on current investments. In addition to these scheduled daily meetings, the Adviser's portfolio managers review Client accounts on a regular basis. While Clients generally hold debt investments until the completion of a restructuring or bankruptcy or other value creating event and post-restructuring equities until their market price reflects the investment team's view of the equity's fundamental value, the Adviser is responsive to changes in the investment thesis that may prompt a sale at an earlier date. Members of the investment team monitor a real-time database of credits, and other micro- and macro-economic data to inform the portfolio managers of any changes that may affect portfolio decisions. In addition, the Adviser's accounting staff produces a variety of monthly metrics to track the distribution of Client's account across capital structure, instrument type, and geography. The Chief Compliance Officer or his designee in conjunction with the accounting staff conducts periodic trading reviews and monitor compliance with guidelines and allocation policies.

Special reviews of Client accounts may also occur upon the occurrence of certain events, for example an event that disproportionately impacts a particular portfolio.

Managed Accounts generally receive transactional reporting at or near the time that trades are executed and are afforded full transparency to the account's portfolio composition. Subject to specially negotiated arrangements, investors in Funds generally receive estimated performance reports from the Adviser, monthly statements from the administrator and annual audited financial statements. In addition, the Adviser generally provides all investors in the Funds monthly or quarterly investor letters that include some performance attribution information. Moreover, the Adviser regularly makes its investor relations staff available to address Client inquiries as well as inquiries from Fund investors.

ITEM 14: CLIENT REFERRALS & OTHER COMPENSATION

Other than as stated elsewhere in this brochure, no other persons, other than Clients, provide any economic benefit to Monarch for providing investment advisory services to its Clients.

The Adviser has entered into and may in the future enter into certain solicitation arrangements for the purpose of introducing investors to the Funds. Pursuant to such arrangements, Monarch may make cash payments to the solicitor that comprise a portion of the fees that Monarch receives from each Fund investor referred by such solicitor. Such payments may also be made by such Funds, which will then be reimbursed by Monarch. Such Fund investors will not be charged extra fees by Monarch, although they may pay fees directly to such solicitor.

ITEM 15: CUSTODY

The Adviser generally does not maintain direct custody of any Client's assets. However, Rule 206(4)-2 under the Advisers Act, broadly defines "custody" to also include holding indirectly Client funds or securities, or having any authority to obtain possession of them. As a result, the Adviser is considered to have custody of Fund assets because the Adviser or its related persons serve in a capacity that gives them legal ownership of or access to each Fund's funds or securities or because the Adviser is authorized under the Fund's Governing Documents to withdraw the Fund's funds or securities maintained with a third-party custodian upon the Fund's instruction to the third-party custodian. Managed Accounts may enter into advisory arrangements that do not give rise to such indirect custody over the Managed Account's assets.

In accordance with Rule 206(4)-2, for each Client where the Adviser is considered to have "custody" of its assets, that Client's financial statements are subject to an annual audit conducted by an independent registered public accounting firm in accordance with U.S. Generally Accepted Accounting Principles and delivered to the underlying investors within 120 days of the Client's fiscal year end. Investments held in special purpose vehicles over whose assets the Adviser may be deemed to have "custody" are included in such audited financial statements and are generally not separately audited.

Underlying investors are instructed to review the financial statements carefully.

ITEM 16: INVESTMENT DISCRETION

Clients in most cases grant the Adviser discretionary investment authority. Any limitations on this authority are set out in each Client's Governing Documents. Generally, any such limitations in respect of a Fund are not true restrictions but rather more general guidelines. Certain Clients however have established and may in the future impose strict limitations on the Adviser's investment discretion.

ITEM 17: VOTING CLIENT SECURITIES

The Adviser has the power to vote Client securities and other instruments and Clients generally may not direct the Adviser how to vote securities in particular situations. As a general matter, the Adviser votes all of its Clients' securities in the same manner. Accordingly, the Adviser's policy is to vote Client securities in a manner that serves the best interests of its Clients overall. In the case of debt instruments, voting items typically pertain to amendment and consent requests, and bankruptcy or reorganization proposals. Different Clients may hold different positions in the same issuer and as a result a conflict may arise in respect of voting Client proxies. In determining how to vote any proxy, the Adviser will review the aggregate impact on the value of Client holdings, the anticipated costs and benefit, including, among other things, the effect on liquidity.

A Conflict may also arise between the interests of Monarch and one or more of its Clients. If such a conflict arises, the Adviser may abstain from voting, vote as recommended by a third party service that the Adviser may choose to employ or take such other action mandated by its Proxy Policy, including voting as it in good faith determines is most fair and equitable.

A copy of the Proxy Policy will be provided, upon request, to any Client. All Clients are also entitled, upon request, to the record of proxies received and voted on their behalf by the Applicant since adoption of the policy.

To receive a copy of the Proxy Policy or information as to how proxies were voted, please contact Stacey Maman at 212.554.1729. or Stacey.Maman@monarchlp.com.

ITEM 18: FINANCIAL INFORMATION

Not applicable.